



April 7, 2020

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

filed online

Dear Mr. Wruck:

**Re: Project No. 1599053
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Transmission Service Market Reference-Priced Rates Application – Freshet Rate
Component**

This is the final written argument of MoveUP, the Movement of United Professionals, the union of BC Hydro’s “inside” workforce.

Today’s Context

1. It hardly needs to be said that the world has changed dramatically over the five months since BC Hydro filed this Application. Proliferating illness and measures taken in BC, across Canada and around the world to mitigate the impact of the coronavirus have plunged the global economy into a sudden and profound recession. How badly the economy is damaged and the timing and shape of recovery are unknowable. The health and economic crisis will find their way into many aspects of life, including BC Hydro’s loads, revenues and operations.

2. We can be certain that BC Hydro’s load is declining and that even the most recent forecasts are of limited value, except as starting-points for Hydro’s best educated guesses for planning purposes. Demand for electricity will decline with economic activity; in this instance, one may conjecture that this will include a significant drop in the general service load as shops, restaurants, other businesses, schools and other public facilities are shuttered. On the other hand, the residential load and load-factor may be increasing, with a large proportion of the population staying at home, binging on Netflix and spending afternoons experimenting at sourdough bread.

3. News reports indicate that Nanaimo's Harmac mill is taking heroic measures to increase production of medical-grade pulp for the manufacture of personal protective equipment, but many industrial BC Hydro customers are hard-hit, no doubt.

4. Meanwhile, as we write, BC Hydro is receiving an unwelcome surge of freshet electricity under take-or-pay contracts with independent power producers, whose operations are presumably oblivious to health and economic calamities. With most of the USA locked down and in recession, including BC Hydro's main export markets along the west coast, what to do with the 2020 freshet glut must be a very difficult problem.

5. We hope and trust that BC Hydro is examining the *force majeure* clauses in its standard-term contracts with IPPs to identify its contractual remedies against force-feeding with freshet energy this spring. The undersigned was one of the intervener legal counsel involved in the process that fashioned those provisions and would welcome an opportunity to make submissions on point.

6. This scenario amplifies the value of the Freshet Rate in finding a load for a small portion of the expanded oversupply in the short term (and, let's all hope, not too much longer than that). Measures to help industries maintain operations and keep employees working are obviously a good idea too.

7. While BC Hydro has not taken any steps to extend a freshet rate of some sort to general service customers, the next while may be a good time to pursue that strategy more proactively.¹

8. Beyond the current situation, in a recovered economy the picture will become more nuanced and issues of fine-tuning and review of the Freshet Rate will become more significant.

Electric Utility Rate Design

9. Looking beyond the immediate crisis, from a longer-term perspective societal needs of electric utilities are changing radically and we can expect change to accelerate. Electrification strategies to replace the combustion of hydrocarbons will bring new and more diverse demands on BC Hydro. These changes include the emergence of large new loads that do not conform with historic profiles, including a burgeoning electric vehicle load that fits Hydro's current rate designs about as effectively as a square peg confronted with a round hole. Innovative approaches will be needed as rate design becomes a vital strategic tool to assist the societal imperative to respond to the climate crisis which will ultimately overshadow the COVID-19 crisis of 2020.

¹ See Ex. B-5 - response to CEC IRs 1.1.1.1 and 1.1.1.2

10. The Bonbright Criteria will fall ever farther behind society's needs. They miss the main point in the emerging context.

11. One-size-fits-all rate designs will become increasingly inadequate. However, in the emerging world of electrical rates tailored to fit emerging needs and circumstances, there will remain a critical need to recover utilities' fixed costs. One solution may be for electricity to be priced similarly to natural gas, where customer rates are segregated between utility cost recovery and flow-through energy commodity charges. Such an approach would provide a far better platform for rate innovation and maneuverability in a changing energy world, while ensuring that utilities continue to receive the revenues they need for operations, maintenance and capital projects.

12. In our IR 1.3.2, we asked "Does BC Hydro consider that emerging policy and market conditions triggered by climate change, including electrification and the replacement of fossil fuel use with clean electricity, significantly complicate forecasting electricity demand and prices, both domestically and extra-provincially, over the coming decade?" We received a lengthy response:

Forecasting future demand for electricity already involves inherent uncertainty and the methodologies and processes BC Hydro uses to develop its forecasts are already relatively complex.

The potential impacts of future climate actions on future demand certainly increases the uncertainty in forecast future electricity demand since it adds to the variables that need to be considered. From a methodological perspective, some of BC Hydro's existing methods forecast future demand for very discrete segments, such as light duty vehicles and the upstream natural gas sector. In these instances BC Hydro's existing methods incorporate climate-related policies and market conditions affecting those discrete areas.

In other more broadly defined segments, such as residential, commercial and a portion of the light industrial sectors, BC Hydro relies on statistical (historical) relationships between load and load drivers (such as economic growth). In these areas, the impacts of future climate policies and actions could influence a broad range of relatively diffuse behavioural changes and purchase decisions across these sectors. The impacts of such actions will eventually be reflected in the statistical data that is subsequently used to project future demand. However, there will likely be a lag between the effects of climate actions on customer demand and when BC Hydro will be able to incorporate those effects, through its statistical models, in developing future forecasts. Given this lag effect, BC Hydro may consider developing adjustments to its existing methods in order to incorporate anticipated load impacts associated with specific climate policies. For example BC Hydro may develop a discrete forecast method for medium and heavy duty vehicles once policies specific to those segments are implemented and reflect those adjustments in the appropriate customer sectors.

Similarly, the electricity market price forecast that BC Hydro uses also considers future uncertainties associated with variables such as natural gas prices, resource buildout in the western interconnection, and carbon policy in North America. The impacts of these variables are reflected in the uncertainty band associated with the market price forecast.

13. Our translation of this response is “we realize that we can’t tell what is coming our way but we try to make allowance for that.”

14. We submit that where uncertainties escalate in fundamentally important matters, the most important resources include resiliency and capacity to recognize and adapt to trends as they appear. Energy pricing is at the heart of society’s response to climate change. We need price structures that are resilient and responsive to emerging needs and opportunities.

15. Viewed from that standpoint, MoveUP’s main comment about the Freshet Rate is that BC Hydro and the Commission need to look beyond *ad hoc* rates and revisit some of the fundamental assumptions that we have all applied to electric rate design in the past.

16. We understand that BC Hydro is reluctant to press ahead with major strategic re-thinking of this nature while the release of the government’s Comprehensive Review final report is pending. The pandemic crisis into which the report will be released may affect the initial uptake of new approaches and strategies, and the flood of public and private debt set loose by the coronavirus will add new problems and complexities superimposed on all of these considerations, but willingness to jettison many traditional ways of thinking about these issues will be even more necessary.

17. BC Hydro says that it has “no immediate plans for a broad rate design application covering all our rate classes”² though it is “open to exploring potential new rate designs”.³ As we argued in the recent BC Hydro RIB Extension proceedings, the conditions that justified existing rate structures have changed.

The Freshet Rate

18. In its responses to MoveUP’s and other participants’ information requests, BC Hydro has allayed many of our concerns about the Application. However, aside from the rate’s *ad hoc* patch-up nature, there remain two significant problems, and the interplay between them magnifies those concerns.

19. One is BC Hydro’s decision not to reserve a right of curtailment for economic reasons (i.e., developments that harm non-participants financially). The other is Hydro’s resistance to monitoring or reviewing the performance of the rate for at least a decade. In combination,

² Ex B-5 – response to MoveUP IR 1.4.1

³ Ex B-5 – response to MoveUP IR 1.4.2

these elements create the risk that the Freshet Rate could veer a long way from its intended impacts over time, undetected, to the potential detriment of non-participants and of BC Hydro itself. Even before COVID-19, it was apparent that the energy sector was embarking on a period of fundamental change in electricity supply, loads and needs, emerging at an accelerating pace. Add a global health and economic crisis at the beginning of the proposed Freshet Rate's "hands-off" decade, and the problems with this holding-pattern become clearer still.

20. On the issue of economic curtailment, BC Hydro responded to several information requests probing its rationale for abandoning that right. In MoveUP's submission, its arguments are not very rigorous or persuasive, other than the unsurprising point that participants strongly prefer Hydro's proposed approach. Hydro's most persuasive argument is that incorporating economic curtailment could reduce participation in the rate offering to an extent that would deprive it of much of its value.

21. However, what is most important is to move beyond *ad hoc* rates and into innovative rate design that offers mutual benefits for BC Hydro and all of its customers with diverse needs and interests. The freshet rate may be a useful interim measure, but it should not be locked in for a lengthy period. Even the freshet customers will benefit from the replacement of the *ad hoc*, bureaucratic freshet rate with more comprehensive, easy-to-access alternatives.

Recommended Disposition

22. MoveUP supports the proposal to maintain the Freshet Rate beyond its current pilot status. However, we submit that it would be an error to assume it is "locked in" for a period of at least ten years before it will be subject to review or re-examination. Our client would support the proposed rate, including the absence of a right of economic curtailment, but not as a ten-year, locked-in fix.

23. More significantly, the extension of the freshet rate should be conditioned on a direction to BC Hydro to undertake a comprehensive review of its rate structures to determine how its rates can provide all customers the opportunity to take advantage of low cost supply when available, and more generally that offer customers rate options that better align with the varying cost of supply on a seasonal and daily basis, while ensuring fixed costs are recovered in a fair and equitable manner.

24. We would recommend that the review be completed within a three year time frame and that the continuation of the freshet and (if approved) incremental rate options be reviewed at that time.

25. We submit that in no event should a review on the efficacy and appropriateness of the Freshet Rate be postponed for a decade.

26. We also propose that the Commission direct BC Hydro to review and report on the extent of its recourse under the *force majeure* provisions of its energy supply agreements in view of the COVID-19 pandemic, the emergency declaration, and the attendant economic crisis.

Yours very truly,

ALLEVATO QUAIL & ROY

A handwritten signature in blue ink, appearing to read 'Jim Quail', written in a cursive style.

per **Jim Quail**
Barrister & Solicitor